

CITY OF KENTON, TENNESSEE

FINANCIAL STATEMENTS

JUNE 30, 2017

CITY OF KENTON, TENNESSEE
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**CITY OF KENTON, TENNESSEE
ROSTER OF PUBLICLY ELECTED OFFICIALS AND
MANAGEMENT OFFICIALS - UNAUDITED
JUNE 30, 2017**

Mayor

Danny Jowers

Alderman

Wade Simpson-Vice Mayor
Sarah Skinner
Lisa Skinner
Glenn Zarecor
Dolores Agee

Department Heads

Recorder, Certified Municipal Finance Officer
Police Chief
Fire Chief
Director of Public Works

Shayna Jackson
Sheila Barnes
Scott Reeves
Nathan Spencer



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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Board of Aldermen
City of Kenton
Kenton, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Tennessee, (the City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness

of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Tennessee, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the general fund and sanitation fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in Kenton's net pension liability (asset) and related ratios based on participation in the public employee pension plan of TCRS, and schedule of Kenton's contributions based on participation in the public employee pension plan of TCRS be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and the supplementary and other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary and other information, except that which is marked "unaudited," are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted

in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and the supplementary and other information, which has been marked "unaudited," has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script, reading "Cowart Reese Sargent".

Cowart Reese Sargent CPAs, PC
Dyersburg, Tennessee
December 22, 2017

CITY OF KENTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

As management of the City of Kenton, Tennessee, (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented in conjunction with additional information that we have furnished in the basic financial statements and the accompanying notes to those financial statements. All amounts, unless otherwise indicated, are expressed in actual dollars. Comparative analysis of key elements of the total governmental funds and total enterprise funds has been provided.

Financial Highlights

Management believes the City of Kenton's financial condition is strong. The following are the key highlights.

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$3,807,355 (*net position*). Of this amount, \$737,022 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$86,921 for the year based on current year profit.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,758,339, a decrease of \$35,238 in comparison with the prior year. Of this amount, \$202,334 is available for spending at the government's discretion (*unassigned fund balance*).
- The City's total debt decreased by \$127,437 (6.30%) during the current fiscal year.
- The water and sewer fund posted net income of \$71,454 for the year ending June 30, 2017. In addition, a prior period adjustment was made decreasing net position by \$41,667.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and supplementary and other information in addition to the basic financial statements themselves.

Reporting Entity

The financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) of the United States of America. All assets, liabilities, deferred inflows/outflows, revenues, and expenses are reported regardless when the cash is received or paid. These statements report net position and changes in net position. Over time, the increase or decrease in the City's net position is an indicator of whether its financial conditions are improving or deteriorating. However, other non-financial factors such as changes in property tax bases, tax rates, etc. must be considered in evaluating the result of changes in net position.

The government-wide financial statements report Statement of Net Position and Statement of Activities and they are divided into two types of activities: Governmental Activities and Business-type Activities.

Governmental Activities – consist of most of the City's basic services, including the police, fire, public works, parks and recreation departments, and general administration. Property taxes, local sales taxes, and state shared revenues finance most governmental activities.

CITY OF KENTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

Business-type Activities – report as revenues the charges to customers to cover costs of services provided by the City to citizens. The City's water and sewer services are provided here.

Government-Wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

- The *statement of net position* presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference between them reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the Government-Wide Financial Statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Kenton include general government, judicial, public safety, highways and streets, sanitation, recreation and public welfare. The business-type activities of the City of Kenton include water and sewer distribution operation.

Fund Financial Statements - A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements provide more detailed information about the most significant funds – not the City as a whole. All of the funds of the City of Kenton can be divided into two categories: Governmental Funds and Proprietary Funds. The City does not have any Fiduciary Funds.

Governmental Funds - The City's basic services are included in Governmental Funds. The focus of these funds is on how cash and other financial assets that can readily be converted to cash when received are used, and what remains at the end of the fiscal year for future spending. This detailed short-term view helps in determining whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not include the additional long-term focus of the Government-Wide Statements, we provide additional information after the Governmental Fund Statements that explain the differences between the long-term view and the short-term view. The accounting method is modified accrual accounting, which measures cash inflows and outflows and financial assets that can be readily converted to cash.

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and sanitation fund which are considered to be major funds.

CITY OF KENTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

The City adopts an annual appropriations budget for its general, sanitation, state street aid, parks and recreation, and drug funds. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Proprietary Funds - Services for which the City charges customers a fee are generally reported in Proprietary Funds. Proprietary Funds, like the Government-Wide Financial Statements, provide both long-term and short-term financial information. The accounting method is accrual accounting, which measures and reports all revenues earned and expenses incurred regardless of when cash flows have happened. There are two different types of Proprietary Funds: Enterprise Funds and Internal Service Funds. The City maintains only Enterprise Funds.

Enterprise Funds are the same as business-type activities in the Government-Wide Financial Statements but provide more detail and additional information, such as cash flows. The Water and Sewer Fund is considered a major fund.

Internal Service Funds provide services for other City activities. The City could choose to account for maintenance of City vehicles or self-financed health insurance through an Internal Service Fund. Because services like these benefit predominantly governmental rather than business-type functions, they are typically included in the activities in the Governmental funds.

Fiduciary Funds - Fiduciary Funds provide information about the financial relationships where the City acts solely as a trustee or fiduciary for the benefit of others to whom the resources belong. The City does not maintain any fiduciary funds.

Notes to Financial Statements - The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The additional information contained in these notes is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

Government-Wide Financial Analysis

Statement of Net Position - As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$3,807,355 at the close of the fiscal year.

The largest portion of the City's net position (76.88%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment) net of any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The unrestricted balance of net position, which makes up 19.36% of the net position, may be used to meet the City's ongoing obligations to citizens and creditors. The City also reports net position that is restricted (3.76%) for various reasons. At the end of the current fiscal year, the City is able to

CITY OF KENTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

report positive balances in all three categories of net position, both for the City as a whole, as well as for its total governmental and total business-type activities.

City of Kenton's Net Position						
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 2,044,262	\$ 2,122,802	\$ 392,938	\$ 567,647	\$ 2,437,200	\$ 2,690,449
Capital assets	1,217,768	1,276,368	2,318,566	2,308,022	3,536,334	3,584,390
Total assets	<u>3,262,030</u>	<u>3,399,170</u>	<u>2,711,504</u>	<u>2,875,669</u>	<u>5,973,534</u>	<u>6,274,839</u>
Deferred outflows of resources	61,019	23,872	18,147	7,035	79,166	30,907
Total assets and deferred outflows of resources	<u>3,323,049</u>	<u>3,423,042</u>	<u>2,729,651</u>	<u>2,882,704</u>	<u>6,052,700</u>	<u>6,305,746</u>
Long-term liabilities	1,361,422	1,555,582	390,222	466,026	1,751,644	2,021,608
Current and other liabilities	187,421	83,743	93,815	195,978	281,236	279,721
Total liabilities	<u>1,548,843</u>	<u>1,639,325</u>	<u>484,037</u>	<u>662,004</u>	<u>2,032,880</u>	<u>2,301,329</u>
Deferred inflows of resources	205,553	230,531	6,912	11,785	212,465	242,316
Total liabilities and deferred inflows of resources	<u>1,754,396</u>	<u>1,869,856</u>	<u>490,949</u>	<u>673,789</u>	<u>2,245,345</u>	<u>2,543,645</u>
Net position						
Net investment in capital assets	1,193,649	1,060,786	1,889,514	1,841,996	3,083,163	2,902,782
Restricted	122,200	296,097	50,501	32,649	172,701	328,746
Unrestricted	252,804	196,303	298,687	334,270	551,491	530,573
Total net position	<u>\$ 1,568,653</u>	<u>\$ 1,553,186</u>	<u>\$ 2,238,702</u>	<u>\$ 2,208,915</u>	<u>\$ 3,807,355</u>	<u>\$ 3,762,101</u>

During the current fiscal year, the City's net position increased by \$86,921. This increase resulted from the current year change in net position as shown on the Government-wide Statement of Activities. In addition a prior period adjustment was made decreasing beginning net position by \$41,667.

Statement of Activities – Revenues in governmental and business-type activities exceeded expenses by \$15,467 and \$71,454, respectively.

Governmental Activities

Revenues for the City's governmental activities decreased 14.80% mostly due to decreased operating grants and contributions. Total expenses for the City's governmental activities increased 0.09% mostly due to increases in sanitation and recreation expenses.

Business-type Activities

In the business-type activities, net position increased by \$29,787 of which \$71,454 is net income from the fund, with the difference being a prior period adjustment.

CITY OF KENTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

The following table provides a summary of the City's operation for the year ended June 30, 2017, with comparative totals for the governmental activities and business-type activities for the year ended June 30, 2016.

City of Kenton's Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues						
Charges for services	\$ 143,193	\$ 140,522	\$ 272,001	\$ 281,271	\$ 415,194	\$ 421,793
Grants & contributions	39,929	124,580	92,195	539,708	132,124	664,288
General revenues						
Property taxes	197,738	191,481	-	-	197,738	191,481
Sales tax	212,690	216,725	-	-	212,690	216,725
Other taxes & intergovernmental	49,915	70,016	-	-	49,915	70,016
School payment on bond	52,482	54,567	-	-	52,482	54,567
Miscellaneous	64,549	94,793	41,262	36,008	105,811	130,801
Investment earnings	330	266	788	1,027	1,118	1,293
Total revenues	760,826	892,950	406,246	858,014	1,167,072	1,750,964
Expenses						
General government	233,186	265,875	-	-	233,186	265,875
Judicial	7,019	8,656	-	-	7,019	8,656
Public safety	199,328	200,046	-	-	199,328	200,046
Highways & streets	133,079	136,199	-	-	133,079	136,199
Sanitation	84,136	62,924	-	-	84,136	62,924
Recreation	35,266	15,260	-	-	35,266	15,260
Public welfare	-	-	-	-	-	-
Interest on long-term debt	53,345	55,751	21,667	24,431	75,012	80,182
Water and sewer	-	-	313,125	322,682	313,125	322,682
Total expenses	745,359	744,711	334,792	347,113	1,080,151	1,091,824
Changes in net position	15,467	148,239	71,454	510,901	86,921	659,140
Net position, beginning	1,553,186	1,404,947	2,208,915	1,698,014	3,762,101	3,102,961
Prior period adjustment	-	-	(41,667)	-	(41,667)	-
Net position, beginning, restated	1,553,186	1,404,947	2,167,248	1,698,014	3,720,434	3,102,961
Net position, ending	\$ 1,568,653	\$ 1,553,186	\$ 2,238,702	\$ 2,208,915	\$ 3,807,355	\$ 3,762,101

Comments on Fund Financial Statements

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

CITY OF KENTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

General fund balance was \$1,643,334 at the end of the current fiscal year, down \$56,381 from the previous year. Of the balance, \$202,334 is available to meet the day-to-day needs of the City. Revenues decreased from the prior year by \$44,291 primarily due to a \$17,951 decrease in intergovernmental revenues and a decrease of \$19,277 in miscellaneous revenues in the current year. Expenditures decreased from the prior year by \$36,227 primarily due to a \$29,227 decrease in police department expenditures. A budget comparison statement with necessary amendments has been provided in the attached report to demonstrate compliance with the budget.

Proprietary Funds - The City's proprietary fund provides the same type of information found in the government-wide financial statements but in more detail. Net position of the proprietary fund at the end of the year was \$2,238,702. The total increase in net position for this fund was \$29,787, however the fund showed a profit of \$71,454. A prior period adjustment decreased beginning net position by \$41,667.

General Fund Budgetary Highlights

Final Budgeted and Actual Amounts

Actual revenues and other financing sources were under the budgeted amounts by \$56,529. Expenditures and other financing uses were under budget by \$12,860. Significant variances are as follows:

- Other financing sources from special school district's payment on bonds were under budget by \$77,949.
- Total debt services were under budget by \$14,324.
- Miscellaneous revenue was under budgeted by \$13,707
- Capital outlay was under budgeted by \$12,600.

Capital Asset and Debt Administration

Capital Assets - The City's investment in capital assets for its governmental and business type activities as of June 30, 2017, amounts to \$3,536,334 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements other than buildings and machinery and equipment. This amount represents a decrease of 1.34% in comparison with the prior year.

During the current fiscal year, the only significant addition to capital assets in the governmental activities was the donation of land to the City in the amount of \$12,600. The proprietary fund added \$623,071 in capital asset improvements for sewer system improvements relating to the baffle station and rehab and aeration systems and \$5,600 for fencing around the water tank.

Debt - At the end of the current fiscal year, the City of Kenton has total debt outstanding of \$1,894,171, all of which is backed by the full faith and credit of the government. Of the total outstanding debt 22.65% belongs to the water and sewer fund.

The City of Kenton's total debt decreased by \$127,437 (6.30%) during the current fiscal year.

CITY OF KENTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

Economic Factors and Next Year's Budget and Rates

Factors considered in preparing the City's budget for the 2018 fiscal year include the following:

- State and local tax revenues have continually increased especially with the addition of local businesses.
- Inflation in employee health care costs will no doubt result in increased expenditures in all funds.
- Because the City is operating with a limited number of police officers significant overtime is resulting in this department which leads to a projected significant increase in salaries.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any information provided in this report or requests for any additional information should be directed to the Office of the City Recorder, City of Kenton, 108 N. Poplar, Kenton, Tennessee 38233 or (731) 749-5767.

CITY OF KENTON, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 304,121	\$ 119,000	\$ 423,121
Investments, at cost	35,000	163,180	198,180
Property taxes receivable (net)	200,056	-	200,056
Accounts receivable (net)	56,890	30,102	86,992
Capital lease receivable	1,441,000	-	1,441,000
Internal balances	-	7,794	7,794
Inventory	-	22,361	22,361
Prepaid assets	-	-	-
Cash and cash equivalents-restricted	-	43,752	43,752
Total current assets	<u>2,037,067</u>	<u>386,189</u>	<u>2,423,256</u>
Other Assets			
Net pension asset	<u>7,195</u>	<u>6,749</u>	<u>13,944</u>
Noncurrent Assets			
Capital assets, not being depreciated:			
Land and construction in progress	153,654	14,018	167,672
Capital assets, being depreciated, net:			
Buildings	155,287	48,252	203,539
Improvements other than buildings	687,251	-	687,251
Machinery and equipment	221,576	-	221,576
Utility plant	-	2,256,296	2,256,296
Total noncurrent assets	<u>1,217,768</u>	<u>2,318,566</u>	<u>3,536,334</u>
Total Assets	<u>3,262,030</u>	<u>2,711,504</u>	<u>5,973,534</u>
Deferred Outflows of Resources			
Pension contributions subsequent to the measurement date	12,091	3,050	15,141
Pension differences between expected and actual experience	38,466	10,642	49,108
Net difference between projected and actual earnings on pension plan investments	10,462	4,455	14,917
Total Deferred Outflows of Resources	<u>61,019</u>	<u>18,147</u>	<u>79,166</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 3,323,049</u>	<u>\$ 2,729,651</u>	<u>\$ 6,052,700</u>

The accompanying notes are an integral part of these financial statements.

CITY OF KENTON, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current Liabilities			
Accounts payable and other current liabilities	\$ 75,930	\$ 25,454	\$ 101,384
Internal balances	7,794	-	7,794
Customer deposits	-	29,531	29,531
Capital lease payable - current	3,631	3,631	7,262
Notes payable - current	40,066	-	40,066
Bonds payable-current	60,000	35,199	95,199
Total current liabilities	<u>187,421</u>	<u>93,815</u>	<u>281,236</u>
Noncurrent Liabilities			
Capital lease payable - due after one year	6,422	6,422	12,844
Notes payable - due after one year	130,000	-	130,000
Bonds payable - due after one year	1,225,000	383,800	1,608,800
Total noncurrent liabilities	<u>1,361,422</u>	<u>390,222</u>	<u>1,751,644</u>
Total Liabilities	<u>1,548,843</u>	<u>484,037</u>	<u>2,032,880</u>
Deferred Inflows of Resources			
Unavailable revenue - property tax	185,188	-	185,188
Pension differences between expected and actual experience	20,365	6,912	27,277
Total Deferred Inflows of Resources	<u>205,553</u>	<u>6,912</u>	<u>212,465</u>
Net Position			
Net investment in capital assets	1,193,649	1,889,514	3,083,163
Restricted for			
State street aid	11,676	-	11,676
Sanitation	60,168	-	60,168
Recreation	41,336	-	41,336
Drug fund	1,825	-	1,825
Debt service	-	43,752	43,752
Net pension asset	7,195	6,749	13,944
Unrestricted	252,804	298,687	551,491
Total net position	<u>1,568,653</u>	<u>2,238,702</u>	<u>3,807,355</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 3,323,049</u>	<u>\$ 2,729,651</u>	<u>\$ 6,052,700</u>

The accompanying notes are an integral part of these financial statements.

CITY OF KENTON, TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/Revenues and Changes in Net Position		
		Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Government activities:							
General government	\$ 233,186	\$ -	\$ -	\$ -	\$ (233,186)	\$ -	\$ (233,186)
Judicial	7,019	-	-	-	(7,019)	-	(7,019)
Public safety	199,328	42,105	4,469	-	(152,754)	-	(152,754)
Highways and streets	133,079	-	-	35,460	(97,619)	-	(97,619)
Sanitation	84,136	94,035	-	-	9,899	-	9,899
Recreation	35,266	6,475	-	-	(28,791)	-	(28,791)
Public welfare	-	578	-	-	578	-	578
Interest on long-term debt	53,345	-	-	-	(53,345)	-	(53,345)
Total governmental activities	745,359	143,193	4,469	35,460	(562,237)	-	(562,237)
Business-type activities:							
Water and sewer fund	334,792	272,001	92,195	-	-	29,404	29,404
Total	<u>\$ 1,080,151</u>	<u>\$ 415,194</u>	<u>\$ 96,664</u>	<u>\$ 35,460</u>	<u>(562,237)</u>	<u>29,404</u>	<u>(532,833)</u>
General revenues							
Property taxes					197,738	-	197,738
Sales taxes					212,690	-	212,690
Alcoholic beverage taxes					24,541	-	24,541
Gross receipts taxes					14,499	-	14,499
Franchise and excise taxes					8,118	-	8,118
State income tax					2,757	-	2,757
Investment earnings					330	788	1,118
Special school district payment on bonds					52,482	-	52,482
Miscellaneous					64,549	41,262	105,811
Total general revenues					577,704	42,050	619,754
Change in net position					15,467	71,454	86,921
Net position - July 1, 2016					1,553,186	2,208,915	3,762,101
Prior Period Adjustment					-	(41,667)	(41,667)
Net position - July 1, 2016 restated					1,553,186	2,167,248	3,720,434
Net position - June 30, 2017					\$ 1,568,653	\$ 2,238,702	\$ 3,807,355

The accompanying notes are an integral part of these financial statements.

CITY OF KENTON, TENNESSEE
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Sanitation Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 188,974	\$ 66,600	\$ 48,547	\$ 304,121
Investments, at cost	35,000	-	-	35,000
Property taxes receivable, net	200,056	-	-	200,056
Accounts receivable, net	39,422	7,794	9,674	56,890
Capital lease receivable	<u>1,441,000</u>	<u>-</u>	<u>-</u>	<u>1,441,000</u>
Total Assets	<u>\$ 1,904,452</u>	<u>\$ 74,394</u>	<u>\$ 58,221</u>	<u>\$ 2,037,067</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 56,338	\$ 6,432	\$ 3,384	\$ 66,154
Due to other funds	-	7,794	-	7,794
Accrued liabilities	<u>9,776</u>	<u>-</u>	<u>-</u>	<u>9,776</u>
Total Liabilities	<u>66,114</u>	<u>14,226</u>	<u>3,384</u>	<u>83,724</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	<u>195,004</u>	<u>-</u>	<u>-</u>	<u>195,004</u>
FUND BALANCES				
Nonspendable				
Capital lease receivable	1,441,000	-	-	1,441,000
Restricted				
Sanitation	-	60,168	-	60,168
State street aid	-	-	11,676	11,676
Parks and recreation	-	-	41,336	41,336
Drug	-	-	1,825	1,825
Unassigned	<u>202,334</u>	<u>-</u>	<u>-</u>	<u>202,334</u>
Total Fund Balances	<u>1,643,334</u>	<u>60,168</u>	<u>54,837</u>	<u>1,758,339</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,904,452</u>	<u>\$ 74,394</u>	<u>\$ 58,221</u>	<u>\$ 2,037,067</u>

The accompanying notes are an integral part of these financial statements.

CITY OF KENTON, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2017

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances of governmental funds	\$ 1,758,339
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,217,768
Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized as components of pension expense in future years.	
Add: Deferred outflows of resources related to pensions	61,019
Less: Deferred inflows of resources related to pensions	(20,365)
Receivables not available to pay for current expenditures and, therefore, are deferred in the funds.	9,816
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	7,195
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,465,119)</u>
Net position of governmental activities	<u><u>\$ 1,568,653</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF KENTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Sanitation Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 300,677	\$ -	\$ -	\$ 300,677
Licenses and permits	18,106	-	-	18,106
Intergovernmental revenues	153,022	-	55,901	208,923
Charges for services	22,545	94,035	4,500	121,080
Fines and seizures	19,560	-	578	20,138
Miscellaneous revenues	31,661	-	11	31,672
Total Revenues	<u>545,571</u>	<u>94,035</u>	<u>60,990</u>	<u>700,596</u>
Expenditures				
Current				
General government	207,742	-	-	207,742
Judicial	7,019	-	-	7,019
Police department	181,782	-	-	181,782
Fire department	13,510	-	-	13,510
Highways and streets	102,135	-	35,158	137,293
Sanitation	-	79,566	-	79,566
Recreation	6,687	-	15,153	21,840
Debt service				
Principal	87,216	3,472	-	90,688
Interest	52,812	533	-	53,345
Total Expenditures	<u>658,903</u>	<u>83,571</u>	<u>50,311</u>	<u>792,785</u>
Revenues Over (Under) Expenditures	(113,332)	10,464	10,679	(92,189)
Other Financing Sources (Uses)				
Special school district payment on bonds	52,482	-	-	52,482
Grant revenue	4,469	-	-	4,469
Total Other Financing Sources (Uses)	<u>56,951</u>	<u>-</u>	<u>-</u>	<u>56,951</u>
Net Change in Fund Balance	(56,381)	10,464	10,679	(35,238)
Fund Balances - July 1, 2016	<u>1,699,715</u>	<u>49,704</u>	<u>44,158</u>	<u>1,793,577</u>
Fund balance - June 30, 2017	<u>\$ 1,643,334</u>	<u>\$ 60,168</u>	<u>\$ 54,837</u>	<u>\$ 1,758,339</u>

The accompanying notes are an integral part of these financial statements.

CITY OF KENTON, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances of governmental funds	\$ (35,238)
<p>Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation in the current period exceeded capital outlay.</p>	
Excess capital assets less depreciation	(58,600)
<p>The pension contributions subsequent to the measurement date of June 30, 2016, consumes the financial resources in the fund statements but is considered deferred outflows of resources in the government wide statements. Therefore, these transactions do not have any effect on net position.</p>	
	12,091
<p>The actuarially determined pension income/expense does not consume current financial resources and, therefore, is not reported in the governmental funds. It is reported as income/expenses in the statement of activities.</p>	
	3,470
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>	
	90,463
<p>Change in revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
Change in unavailable property taxes.	<u>3,281</u>
Change in net position of governmental activities	<u><u>\$ 15,467</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF KENTON, TENNESSEE
STATEMENT OF NET POSITION - WATER AND SEWER FUND
June 30, 2017

ASSETS

Current Assets

Cash and cash equivalents	\$ 119,000	
Investments, at cost	163,180	
Accounts receivable	30,102	
Due from other funds	7,794	
Inventory	22,361	
Cash and cash equivalents - restricted	<u>43,752</u>	
Total current assets		386,189

Other Assets

Net pension asset		6,749
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Capital Assets

Land	14,018	
Buildings	266,756	
Plant in service	5,057,442	
Less: Accumulated depreciation	<u>(3,019,650)</u>	
Net capital assets		<u>2,318,566</u>

Total Assets		2,711,504
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DEFERRED OUTFLOWS OF RESOURCES

Pension contributions subsequent to the measurement date	3,050	
Differences between expected and actual experience	10,642	
Net difference between projected and actual earnings on pension plan investments	<u>4,455</u>	
Total Deferred Outflows of Resources		<u>18,147</u>

Total Assets and Deferred Outflows of Resources		<u>\$ 2,729,651</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF KENTON, TENNESSEE
STATEMENT OF NET POSITION - WATER AND SEWER FUND
June 30, 2017

LIABILITIES

Current Liabilities

Accounts payable	\$ 21,984	
Accrued interest payable	3,470	
Customer deposits	29,531	
Capital lease payable - current	3,631	
Bonds payable - current	<u>35,199</u>	
Total current liabilities		93,815

Noncurrent Liabilities

Capital lease payable - noncurrent	6,422	
Bonds payable - noncurrent	<u>383,800</u>	
Total noncurrent liabilities		<u>390,222</u>

Total Liabilities		484,037
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DEFERRED INFLOWS OF RESOURCES

Differences between expected and actual experience	<u>6,912</u>	
Total Deferred Inflows of Resources		6,912

NET POSITION

Net investment in capital assets	1,889,514	
Restricted for debt service	43,752	
Restricted for net pension asset	6,749	
Unrestricted	<u>298,687</u>	
Total Net Position		<u>2,238,702</u>

Total Liabilities, Deferred Inflows of Resources, and Net Position		<u>\$ 2,729,651</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF KENTON, TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
WATER AND SEWER FUND
For the Year Ended June 30, 2017

Operating Revenues

Water and sewer services	\$ 260,344
Late payment penalties	11,657
Miscellaneous revenue	39,785
Total operating revenues	<u>311,786</u>

Operating Expenses

Salaries	66,322
Payroll taxes	4,960
Utilities	21,105
Telephone	2,447
Office supplies and postage	3,335
Supplies	14,025
Repair and maintenance	56,828
Purification testing and supplies	9,380
Professional services	8,062
Depreciation	94,698
Insurance	10,000
Capital outlay	10,048
Miscellaneous	11,915
Total operating expenses	<u>313,125</u>

Operating Income (Loss)	<u>(1,339)</u>
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Non-operating revenues (expenses)

Interest revenue	788
Interest expense	(21,667)
Negative pension expense	1,045
Other revenue	432
Total non-operating revenues (expenses)	<u>(19,402)</u>

Income before contributions	(20,741)
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Capital contributions - grant proceeds	<u>92,195</u>
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Change in Net Position	<u>71,454</u>
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Net Position - July 1, 2016	2,208,915
Prior Period Adjustment	<u>(41,667)</u>
Net Position - July 1, 2016, Restated	<u>2,167,248</u>

Net Position - June 30, 2017	<u><u>\$ 2,238,702</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF KENTON, TENNESSEE
STATEMENT OF CASH FLOWS - WATER AND SEWER FUND
For the Year Ended June 30, 2017

Cash Flows From Operating Activities

Receipts from customers	\$ 454,478
Payments to suppliers	(292,817)
Payments to employees	(71,282)
Customer deposits received	7,355
Customer deposits remitted	(5,937)
Net cash provided by operating activities	<u>91,797</u>

Cash Flows From Capital and Related Financing Activities

Purchases of capital assets	(105,243)
Grant revenue	92,195
Principal paid on capital debt	(36,974)
Interest paid on capital debt	(21,667)
Net cash used by capital and related financing activities	<u>(71,689)</u>

Cash Flows From Investing Activities

Interest income	788
Other revenue	432
Net cash provided by investing activities	<u>1,220</u>

Net Increase in Cash and Cash Equivalents 21,328

Cash and Cash Equivalents - July 1, 2016 141,424

Cash and Cash Equivalents - June 30, 2017 \$ 162,752

Unrestricted cash and cash equivalents on deposit	\$ 119,000
Restricted cash and cash equivalents on deposit	43,752
Total Cash and Cash Equivalents	<u><u>\$ 162,752</u></u>

Reconciliation of Operating Income to Net Cash Flows From Operating Activities:

Operating income (loss)	\$ (1,339)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	94,698
Changes in pension related deferred outflows and inflows	(14,940)
Changes in assets and liabilities:	
(Increase) Decrease in receivables	142,692
(Increase) Decrease in net pension asset	11,679
Increase (Decrease) in accounts payable	(142,411)
Increase (Decrease) in customer deposits	1,418
Net Cash Provided by Operating Activities	<u><u>\$ 91,797</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF KENTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Over (Under)
REVENUES				
Local Taxes				
Property taxes	\$ 185,100	\$ 184,922	\$ 190,158	\$ 5,236
Interest and penalties	2,500	3,450	4,299	849
Local sales tax	94,600	88,200	86,083	(2,117)
Business taxes	30	60	41	(19)
Gross receipts tax	13,500	13,500	14,499	999
Cable TV franchise tax	<u>5,850</u>	<u>5,618</u>	<u>5,597</u>	<u>(21)</u>
Total local taxes	<u>301,580</u>	<u>295,750</u>	<u>300,677</u>	<u>4,927</u>
Licenses and Permits				
Automobile registration	17,500	17,500	17,766	266
Beer licenses	300	300	300	-
Building permits	<u>100</u>	<u>40</u>	<u>40</u>	<u>-</u>
Total licenses and permits	<u>17,900</u>	<u>17,840</u>	<u>18,106</u>	<u>266</u>
Intergovernmental Revenues				
Housing Authority payments in lieu of taxes	500	511	511	-
TVA payments in lieu of taxes	14,900	14,453	14,453	-
State of Tennessee sales tax	100,000	103,900	106,166	2,266
State of Tennessee income tax	6,200	11,017	2,757	(8,260)
State of Tennessee beer tax	27,130	23,625	24,241	616
State of Tennessee - petroleum special	2,610	2,600	2,373	(227)
State of Tennessee - corporate excise tax	<u>-</u>	<u>2,521</u>	<u>2,521</u>	<u>-</u>
Total intergovernmental revenues	<u>151,340</u>	<u>158,627</u>	<u>153,022</u>	<u>(5,605)</u>
Charges for Services				
Fire protection fees	16,800	18,600	21,075	2,475
Other fees	<u>1,560</u>	<u>1,574</u>	<u>1,470</u>	<u>(104)</u>
Total charges for services	<u>18,360</u>	<u>20,174</u>	<u>22,545</u>	<u>2,371</u>
Fines, Forfeitures and Penalties				
City court fines	18,000	12,000	17,810	5,810
Court fines and costs from county	<u>400</u>	<u>1,705</u>	<u>1,750</u>	<u>45</u>
Total fines, forfeitures and penalties	<u>18,400</u>	<u>13,705</u>	<u>19,560</u>	<u>5,855</u>
Other Revenue				
Rent	7,000	9,294	9,294	-
Interest revenue	270	270	319	49
Community center fees	2,000	2,125	1,975	(150)
Miscellaneous	<u>1,915</u>	<u>6,366</u>	<u>20,073</u>	<u>13,707</u>
Total other revenue	<u>11,185</u>	<u>18,055</u>	<u>31,661</u>	<u>13,606</u>
Total revenues	<u>518,765</u>	<u>524,151</u>	<u>545,571</u>	<u>21,420</u>

The accompanying notes are an integral part of these financial statements.

CITY OF KENTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Over (Under)
EXPENDITURES				
General Government				
Salaries	\$ 45,900	\$ 48,846	\$ 46,593	\$ (2,253)
Payroll taxes	5,650	5,550	4,947	(603)
Insurance	80,735	80,105	75,955	(4,150)
Board and committee fees	10,200	10,200	9,950	(250)
Memberships and registration	2,500	1,901	2,123	222
Advertising	300	700	481	(219)
Utilities and telephone	6,827	6,257	6,238	(19)
Professional services	19,101	22,423	22,535	112
Repair and maintenance	1,000	-	-	-
Travel	1,100	351	352	1
Supplies	5,650	5,183	7,713	2,530
Retirement contributions	2,750	2,975	2,954	(21)
Miscellaneous	2,000	2,000	2,000	-
Capital outlay	11,620	13,301	25,901	12,600
Total general government	<u>195,333</u>	<u>199,792</u>	<u>207,742</u>	<u>7,950</u>
Judicial				
Salaries	3,600	3,600	3,600	-
Payroll taxes	275	275	275	-
Supplies	3,045	1,945	2,279	334
Miscellaneous	2,025	925	865	(60)
Total judicial	<u>8,945</u>	<u>6,745</u>	<u>7,019</u>	<u>274</u>
Police Department				
Salaries	140,000	141,480	142,171	691
Payroll taxes	10,800	10,435	10,439	4
Retirement	7,000	5,645	5,411	(234)
Memberships and registrations	830	528	504	(24)
Utilities and telephone	3,792	3,727	3,609	(118)
Repair and maintenance	4,791	4,553	4,398	(155)
Supplies	5,655	4,218	3,910	(308)
Travel	-	26	26	-
Gas and oil	7,000	5,415	5,536	121
Miscellaneous	100	548	298	(250)
Capital outlay	13,512	11,800	5,480	(6,320)
Total police department	<u>193,480</u>	<u>188,375</u>	<u>181,782</u>	<u>(6,593)</u>
Fire Department				
Salaries	7,000	8,100	8,100	-
Payroll taxes	535	620	620	-
Supplies	1,030	1,797	1,516	(281)
Repair and maintenance	5,600	1,003	860	(143)
Travel	400	450	450	-
Gas and oil	1,000	1,200	1,009	(191)
Memberships and registrations	160	200	200	-
Contract services	700	755	755	-
Total fire department	<u>16,425</u>	<u>14,125</u>	<u>13,510</u>	<u>(615)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF KENTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Over (Under)
Highways and Streets				
Salaries	\$ 62,900	\$ 55,100	\$ 56,852	\$ 1,752
Payroll taxes	4,815	4,020	4,128	108
Retirement	3,770	3,335	3,421	86
Utilities and telephone	4,277	3,297	3,587	290
Repair and maintenance	6,900	3,400	2,873	(527)
Gas and oil	7,000	6,000	5,221	(779)
Clothing and uniforms	400	398	398	-
Gravel and sand	2,900	2,700	2,500	(200)
Supplies	8,890	7,810	6,761	(1,049)
Capital outlay	-	16,394	16,394	-
Total highways and streets	<u>101,852</u>	<u>102,454</u>	<u>102,135</u>	<u>(319)</u>
Recreation				
Salaries	2,600	4,600	3,600	(1,000)
Utilities and telephone	1,780	1,602	1,652	50
Repair and maintenance	50	1,270	1,270	-
Supplies	3,300	300	165	(135)
Total recreation	<u>7,730</u>	<u>7,772</u>	<u>6,687</u>	<u>(1,085)</u>
Debt Service				
Principal	76,250	76,250	87,216	10,966
Interest	54,181	49,066	52,812	3,746
Total debt service	<u>130,431</u>	<u>125,316</u>	<u>140,028</u>	<u>14,712</u>
Total expenditures	<u>654,196</u>	<u>644,579</u>	<u>658,903</u>	<u>14,324</u>
Revenues Over (Under) Expenditures	<u>(135,431)</u>	<u>(120,428)</u>	<u>(113,332)</u>	<u>7,096</u>
Other Financing Sources (Uses)				
Grant revenue	5,000	4,469	4,469	-
Special school district payment on bonds	130,431	130,431	52,482	(77,949)
Total other financing sources (uses)	<u>135,431</u>	<u>134,900</u>	<u>56,951</u>	<u>(77,949)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ 14,472</u>	<u>(56,381)</u>	<u>\$ (70,853)</u>
Fund Balance - July 1, 2016			<u>1,699,715</u>	
Fund Balance - June 30, 2017			<u>\$ 1,643,334</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF KENTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SANITATION FUND
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Over (Under)
REVENUES				
Refuse collection charges	\$ 94,360	\$ 94,015	\$ 94,035	\$ 20
Total revenues	<u>94,360</u>	<u>94,015</u>	<u>94,035</u>	<u>20</u>
EXPENDITURES				
Landfill services	68,832	69,264	75,005	5,741
Collection charges	992	972	486	(486)
Repairs and maintenance	3,000	900	668	(232)
Capital outlay	21,536	6,744	3,407	(3,337)
Debt service-principal	-	-	3,472	3,472
Debt service-interest	-	-	533	533
Total expenditures	<u>94,360</u>	<u>77,880</u>	<u>83,571</u>	<u>5,691</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 16,135</u>	10,464	<u>\$ (5,671)</u>
Fund Balance - July 1, 2016			<u>49,704</u>	
Fund Balance - June 30, 2017			<u>\$ 60,168</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the City of Kenton (the “City”) conform to generally accepted accounting principles applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's significant accounting policies are summarized as follows:

A. Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the City's financial statements to be misleading or incomplete. Based on the aforementioned criteria, the City of Kenton has no component units.

B. Basis of Presentation

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's judicial, police and fire protection (public safety), highways and streets, sanitation, recreation, public welfare, and general administrative services are classified as governmental activities. The City's water and sewer services are classified as business-type activities. The City does not have any fiduciary funds; however, if the City had one, they would not be included in the government-wide financial statements.

C. Basic Financial Statements

Government-Wide Statements

Statement of Net Position reports both the governmental and business-type activities columns that are (a) presented on a consolidated basis by column and (b) reported on a full accrual basis, the economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three categories: 1) net investment in capital assets, 2) restricted net position, and 3) unrestricted net position. When both restricted and unrestricted net positions are available, the City first utilizes restricted resources to finance qualifying activities.

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of Activities reports both the gross and net cost of each of the City's functions: governmental activities and business-type activities. The functions are also supported by general revenues (property taxes, sales and use taxes, intergovernmental revenues, interest income, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating grants, and capital grants. Program revenues must be directly associated with the function (public safety, sanitation, etc.) or a business-type activity. Operating grants include operating or capital of which could be specific and discretionary while the capital grants column reflects capital-specific grants. The net costs (by function or business-type) are normally covered by general revenues (property taxes, sales and use taxes, intergovernmental revenues, interest income, etc.).

The City does not allocate indirect costs.

The government-wide focus is on the sustainability of the City as an entity and the change in the City's net position resulting from the financial activities in the current fiscal year.

Fund Financial Statements

The City utilized the following fund types:

Governmental Funds

The focus of governmental funds is upon determination of financial position – Balance Sheet, and changes in the financial position – Statement of Revenues, Expenditures, and Changes in Fund Balance. The City reports the following governmental funds:

- a. General Fund – is the general operating fund of the City and is considered a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Special Revenue Funds – are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

Proprietary Funds

The focus of proprietary funds is to report on financial position – Statement of Net Position, changes in net position – Statement of Revenues, Expenses, and Changes in Net Position, and cash flows – Statement of Cash Flows. The generally accepted accounting principles applicable are similar to the private business sector.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are results of providing services to citizens and users and from delivering goods in accordance with the fund's principal operations for charges and fees. Operating expenses include cost of providing services and delivering goods such as: personnel, contractual services, supplies,

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

repairs and maintenance, utilities, and depreciation on capital assets, etc. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

There are two types of proprietary funds. Enterprise Funds are financed and operated in a manner similar to business private sector, where the intent of the governing body is that the costs (expenses including depreciation) of providing the goods and services to the general public are financed through user charges. The City has one enterprise fund: Water and Sewer. This fund operates and collects revenues from citizens and users of services on a fee basis for activities associated with the distribution of water and treatment and the City's collection, transportation, and disposal of wastewater. Internal Service Funds are used when the governing body decides that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes. The City does not have an internal service fund.

D. Basis of Accounting Measurement Focus

Basis of accounting refers to the point which revenues and expenditures are recognized in the accounts and reported in the financial statements. It is related to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All assets and liabilities (current and noncurrent) are reported.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The exception to this general rule is that principal and interest on general obligations of long-term debt is recognized when due. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

In general, taxes, licenses, federal and state grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

E. Budgetary Data

The City follows the following guidelines in establishing the budgetary data reflected in financial statements:

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- a. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
- b. Revisions to the budget may be made throughout the year in accordance with governing statutes and consistent with generally accepted accounting principles.
- c. Unused appropriations for all the annually budgeted funds lapse at the end of the year.

F. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Fund Balance

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposit accounts, and short-term investments with original maturities of three months or less.

Investments of the City consist primarily of certificates of deposit at area banks. Investments are valued at cost. State statutes authorize the City to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. Government or its agencies, repurchase agreements, and the State's investment pool.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Property taxes are levied on October 1 of each year and attach as an enforceable lien on property as of January 1. The City bills and collects its own property taxes. The City's tax bills are mailed on October 1 with payment due dates from October 1 through February 28 and a delinquent date of March 1. Tax revenues are recognized when levied to the extent that they result in current receivables. Governmental funds report deferred revenues in connection with taxes receivable for revenues that are not considered to be available to liquidate liabilities of the current period. The City reports an allowance for doubtful accounts which estimates expected uncollectible receivables.

Receivables are recorded in various fund types. Receivables are shown net of any allowance for uncollectible accounts. The allowance amounts are as follows: General - \$72,255; Water and Sewer - \$0.

3. Inventories

Perpetual inventory records are not maintained. Physical inventory counts are made annually, and inventory balances are recorded at cost, using the first-in, first-out method. All inventories are maintained on a consumption method of accounting where items are purchased for inventory and charged to the budgetary accounts as the items are consumed.

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Bond Premiums and Discounts/Issuance Costs

In the governmental fund, bond premiums and discounts and issuance costs are treated as period cost in the year of issue. Bond premiums and discounts are shown as other financing sources (uses). In the proprietary funds, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method if it does not differ materially from the interest method. Bond premiums and discounts are netted with the bond.

5. Capital Assets

Capital assets, which include property, plant, vehicles, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) and construction in progress, are reported in the applicable governmental or business-type activity column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 for improvements other than buildings and equipment, and \$10,000 for infrastructure and buildings and an estimated useful life of one year or greater. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized, but are expensed as incurred. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There were no interest costs capitalized for the year ended June 30, 2017.

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	40 years
Plant in operation	10-35 years
Vehicles and equipment	5 years
Furniture and fixtures	3-10 years
Infrastructure	40 years

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently has three items reported in this category: pension contributions subsequent to the measurement date, pension differences between expected and actual experience, and net difference between projected and actual earnings on pension plan investments.

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The items that qualify for reporting as a deferred inflow of resources are unavailable revenue – property taxes and pension differences between expected and actual experience.

7. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is separated into three categories: net investment in capital assets, restricted, and unrestricted.

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted Net Position – This component of net position consists of restrictions placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – Unrestricted net position consists of net positions that do not meet the definition of “restricted” or “net investment in capital assets”. These are available for current use by the City.

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

8. Fund Balance

For the fiscal year ending June 30, 2011, the City of Kenton implemented GASB Statement No. 54, “Fund Balance Reporting and Government Fund Type Definitions”. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints:

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Nonspendable Fund Balance - This classification includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.
- Restricted Fund Balance - This classification includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted with the consent of resource providers.
- Committed Fund Balance - This classification includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision-making authority, the Board of Aldermen of the City of Kenton. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example: resolution).
- Assigned Fund Balance - This classification includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. The Board has the authority to assign amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.
- Unassigned Fund Balance - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

The details of the fund balance are included in the Balance Sheet-Governmental Funds as listed in the table of contents. Restricted funds are used first as appropriate. Assigned funds are reduced to the extent that expenditure authority has been budgeted by the Board or the assignment has been changed by the Mayor. Decreases to fund balance first reduce committed fund balance; in the event that committed fund balance becomes zero, then assigned and unassigned fund balances are used in the respective order.

G. Revenues, Expenditures/Expenses

Substantially all governmental fund revenues except for accrued property taxes are billed and collected within the same period the taxes are levied. Subsidies and grants to proprietary funds, which finances either capital or current operations, are reported as nonoperating revenue based on GASB No. 33. In applying GASB No. 33 to grant revenues, the provider recognized liabilities and expenses and the recipient recognized receivables and revenue when the applicable eligibility requirements are met, otherwise they are reported as advances by the provider and unavailable revenues by the recipient.

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities. All revenues that are not generated from the daily operations are defined as nonoperating items.

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenditures generally are recorded when a related liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements are recorded only when payment is due.

H. Political Subdivision Retirement Plan

For purposes of measuring the net pension asset, net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the City's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of the \$1,217,768 difference are as follows:

Governmental funds capital assets	\$ 2,473,251
Less: accumulated depreciation	<u>(1,255,483)</u>
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	<u><u>\$ 1,217,768</u></u>

Another element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds." The detail of this \$(1,465,119) difference is as follows:

Notes payable	\$ (170,066)
Capital lease payable	(10,053)
Bonds payable	<u>(1,285,000)</u>
Net adjustment to reduce fund balances - total governmental funds to arrive at net position - governmental activities	<u><u>\$ (1,465,119)</u></u>

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(continued)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this difference is as follows:

Capital outlay	\$ 12,600
Depreciation expense	<u>(71,200)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u><u>\$(58,600)</u></u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$90,463 difference are as follows:

Principal repayments	<u>\$ 90,463</u>
Net adjustment to increase net changes in fund balances-total governmental funds to arrive at changes in net position of governmental activities	<u><u>\$ 90,463</u></u>

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. ASSETS

1. Deposits and Investments

The carrying amount of deposits is presented on the balance sheet as “Cash and cash equivalents” and “Investments”. Investments (for the primary government) consist of certificate of deposits at local banks whose original maturity exceeds three months. Investments that have maturities of three months or less at the date of purchase are classified as cash and cash equivalents. Cash and cash equivalents represents money on deposit in various banks. Cash and cash equivalents and investments are stated at cost, which approximates market value. A summary of cash balances is as follows:

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

Cash and cash equivalents	\$ 423,121
Cash and cash equivalents-restricted	43,752
Investments	198,180
Total	<u>\$ 665,053</u>

Custodial Credit Risk - The City's policies limit deposits and investments to those instruments allowed by applicable state laws as described in Note 1. State statute requires that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the City's agent in the City's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the City to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities and the state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2017, all bank deposits were fully collateralized through the Federal Deposit Insurance Corporation or the State of Tennessee Bank Collateral Pool.

2. Receivables

Receivables as of June 30, 2017 for the City's individual major funds as well as nonmajor funds including the applicable allowances for uncollectible accounts are as follows:

	General	Sanitation	Water and Sewer	Nonmajor Funds Governmental	Total
Receivables:					
Property taxes	\$ 272,311	\$ -	\$ -	\$ -	\$ 272,311
Accounts	39,422	7,794	30,102	9,674	86,992
Capital lease	1,441,000	-	-	-	1,441,000
Gross receivables	<u>1,752,733</u>	<u>7,794</u>	<u>30,102</u>	<u>9,674</u>	<u>1,800,303</u>
Less: Allowance for uncollectibles	<u>(72,255)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(72,255)</u>
Net total receivables	<u>\$ 1,680,478</u>	<u>\$ 7,794</u>	<u>\$ 30,102</u>	<u>\$ 9,674</u>	<u>\$ 1,728,048</u>

The capital lease receivable represents the amount due from the Kenton Special School District in relation to the agreement between the City and the School District to repay debt that was issued in the City's name for the purpose of capital additions of the school. The receivable balance agrees to the City's debt balance. The School District is obligated to submit to the City, no later than fifteen days prior to the debt service payment due date, the principal and interest amounts due at that time.

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

	Unavailable	Unearned	Total
Delinquent property taxes receivable	\$ 9,816	\$ -	\$ 9,816
2017 property tax assessment	-	185,188	185,188
Total	<u>\$ 9,816</u>	<u>\$ 185,188</u>	<u>\$ 195,004</u>

3. Capital Assets

During the current fiscal year ended June 30, 2017, the following changes in capital assets occurred:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 141,054	\$ 12,600	\$ -	\$ 153,654
	<u>141,054</u>	<u>12,600</u>	<u>-</u>	<u>153,654</u>
Capital assets, being depreciated				
Buildings	412,909	-	-	412,909
Improvements other than buildings	1,037,710	-	-	1,037,710
Machinery and equipment	868,978	-	-	868,978
Total capital assets, being depreciated	<u>2,319,597</u>	<u>-</u>	<u>-</u>	<u>2,319,597</u>
Less accumulated depreciation				
Buildings	248,101	9,521	-	257,622
Improvements other than buildings	326,237	24,222	-	350,459
Machinery and equipment	609,945	37,457	-	647,402
Total accumulated depreciation	<u>1,184,283</u>	<u>71,200</u>	<u>-</u>	<u>1,255,483</u>
Total capital assets being depreciated, net	<u>1,135,314</u>	<u>(71,200)</u>	<u>-</u>	<u>1,064,114</u>
Governmental activities capital assets, net	<u>\$ 1,276,368</u>	<u>\$ (58,600)</u>	<u>\$ -</u>	<u>\$ 1,217,768</u>

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

Business-type activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 14,018	\$ -	\$ -	\$ 14,018
Construction in progress	<u>523,429</u>	<u>99,642</u>	<u>(623,071)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>537,447</u>	<u>99,642</u>	<u>(623,071)</u>	<u>14,018</u>
Capital assets, being depreciated				
Buildings	266,755	-	-	266,755
Utility Plant and equipment	<u>4,428,772</u>	<u>628,671</u>	<u>-</u>	<u>5,057,443</u>
Total capital assets, being depreciated	<u>4,695,527</u>	<u>628,671</u>	<u>-</u>	<u>5,324,198</u>
Less accumulated depreciation				
Buildings	214,835	3,668	-	218,503
Utility Plant and equipment	<u>2,710,117</u>	<u>91,030</u>	<u>-</u>	<u>2,801,147</u>
Total accumulated depreciation	<u>2,924,952</u>	<u>94,698</u>	<u>-</u>	<u>3,019,650</u>
Total capital assets being depreciated, net	<u>1,770,575</u>	<u>533,973</u>	<u>-</u>	<u>2,304,548</u>
Business-type activities capital assets, net	<u>\$ 2,308,022</u>	<u>\$ 633,615</u>	<u>\$ (623,071)</u>	<u>\$ 2,318,566</u>

Depreciation was charged to various functions and activities as follows:

Governmental Activities:	
General government	\$ 45,482
Public safety	7,014
Highways and streets	707
Sanitation	4,571
Recreation	13,426
Total depreciation expense - governmental activities	<u>\$ 71,200</u>
Business-type Activities:	
Water and Sewer	<u>\$ 94,698</u>
Total depreciation expense - business type activities	<u>\$ 94,698</u>

4. Property Taxes

Property taxes are levied annually on the first of January. Taxes are due and payable from the following October through February in the year succeeding the tax levy. An unperfected lien attaches by statute to property on March 1 for unpaid taxes from the prior year's levy. Taxes uncollected for one year past the due date are submitted to the Chancery Court for collection. Tax liens become perfected at the time the court enters judgment.

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

B. LIABILITIES

Long-Term Obligations

The City's long-term debt is segregated between amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. Long term debt obligations for the governmental activities as of June 30, 2017, consist of the following general obligation bonds and note payable:

General Obligation School Refunding Bonds, Series 2011 – issued for \$1,515,000 to refund the General Obligation School Bonds, Series 2001 bonds originally issued for \$1,680,000 to fund the construction of a school building; interest rates vary from 1.15% to 4.00% with a net interest cost of 3.60%; interest payments are due monthly and graduated principal payments are due annually (see schedule of bond and interest requirements); outstanding balance at June 30, 2017 was \$1,285,000. The bonds will mature on June 1, 2027.

Note payable, Simmons Bank – original amount of \$312,000 to fund the construction of a tornado shelter at the school; semi-annual principal payments of \$13,000 plus accrued interest at 3.50%; outstanding balance at June 30, 2017 was \$156,000. This note is unsecured and has a maturity date of June 1, 2023.

Capital lease payable, De Lage Landen Public Finance, LLC - original amount of \$15,500; 48 monthly payments of \$379; interest at 4.46%; outstanding balance at June 30, 2017 was \$10,053. This lease is collateralized by the backhoe purchased with the funds. The lease term will end on February 17, 2020.

Note payable, Simmons Bank – original amount of \$25,075; collateralized by a certificate of deposit held at Simmons Bank; monthly payments of \$546 and one balloon payment of outstanding principal and interest due June 28, 2018; interest at 2.35%; outstanding balance at June 30, 2017 was \$14,066.

The City has agreements with the Kenton Special School District that requires the District to submit to the City an amount equal to the next debt service requirement no later than fifteen days prior to the debt service payment date.

Long-term debt obligations of the business – type activities as of June 30, 2017, consist of the following revenue bonds and note payable:

Revenue bonds - Water and Sewer 5% Revenue and Tax Bond, Series 1983 – issued for \$600,000, interest at 5%; matures in 2023; outstanding balance at June 30, 2017 was \$164,380.

Revenue bonds - Water and Sewer 4.75% Revenue and Tax Bond, Series 1999 – issued for \$337,000, interest at 4.75%; matures in 2038; outstanding balance at June 30, 2017 was \$254,619.

Capital lease payable - De Lage Landen Public Finance, LLC - original amount of \$15,500 to fund the purchase of a backhoe; 48 monthly payments of \$379; interest at 4.46%; outstanding balance at June 30, 2017 was \$10,053. This lease is collateralized by the backhoe purchased with the funds.

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

Long-term liability activity for the year ended June 30, 2017, was as follows:

	Balance June 30, 2016	Borrowings	Retirements	Balance June 30, 2017	Due Within One Year
Governmental Activities					
General Obligation Bonds	\$ 1,340,000	\$ -	\$ 55,000	\$ 1,285,000	\$ 60,000
Capital lease payable	13,525	-	3,472	10,053	3,631
Notes Payable	202,057	-	31,991	170,066	40,066
Governmental Activity					
Long-term liabilities	<u>\$ 1,555,582</u>	<u>\$ -</u>	<u>\$ 90,463</u>	<u>\$ 1,465,119</u>	<u>\$ 103,697</u>
Business-type activities					
Revenue Bonds	\$ 452,501	\$ -	\$ 33,502	\$ 418,999	\$ 35,199
Capital lease payable	13,525	-	3,472	10,053	3,631
Business-type activity					
Long-term liabilities	<u>\$ 466,026</u>	<u>\$ -</u>	<u>\$ 36,974</u>	<u>\$ 429,052</u>	<u>\$ 38,830</u>

The annual requirements, by activity type, to amortize all long-term debt outstanding at June 30, 2017, are as follows:

Notes Payable Year Ending June 30,	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 103,697	\$ 50,968	\$ 38,830	\$ 19,812	\$ 142,527	\$ 70,780
2019	99,795	47,971	40,774	17,867	140,569	65,838
2020	143,627	45,040	41,480	15,827	185,107	60,867
2021	146,000	40,637	40,817	13,819	186,817	54,456
2022	156,000	36,126	42,884	11,752	198,884	47,878
2023-2027	816,000	95,922	60,532	45,322	876,532	141,244
2028-2032	-	-	64,391	31,669	64,391	31,669
2033-2037	-	-	81,617	14,443	81,617	14,443
2037-2038	-	-	17,727	443	17,727	443
Total	<u>\$ 1,465,119</u>	<u>\$ 316,664</u>	<u>\$ 429,052</u>	<u>\$ 170,954</u>	<u>\$ 1,894,171</u>	<u>\$ 487,618</u>

All significant debt covenants and restrictions as set forth in the bond agreements were complied with. Interest expense for the year was charged to the following funds:

General Fund	\$ 52,812
Sanitation	533
Water and Sewer Fund	21,667
Total	<u>\$ 75,012</u>

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

C. Compensated Absences

The City has established vacation and sick leave policies according to which a full-time employee is awarded five vacation days after one year of active service, ten days after three years, fifteen days after ten years, and twenty days after twenty years of active service. Unused vacation time may be accumulated and carried forward for up to a maximum of 30 days. No accrual has been made for these compensated absences as of June 30, 2017. This lack of accrual is considered a deviation from GAAP; however, the amounts are considered insignificant to the financial statements as a whole.

D. Interfund Receivable, Payables, and Transfers

Most interfund balances are due to disbursements for accounts payable being issued through one fund. In addition, some accounts receivables are collected and deposited into one fund for another fund, then reimbursed. As of June 30, 2017, the sanitation fund owes the water fund \$7,794, for accounts receivables not yet reimbursed. During the year ended June 30, 2017, there were no transfers between funds.

E. Fund Balances

The City's Fund Balances are made up of the following:

	<u>General</u>	<u>Sanitation</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Fund Balances:				
Nonspendable for:				
Capital Lease				
Receivable	\$ 1,441,000	\$ -	\$ -	\$ 1,441,000
Restricted for (by enabling				
legislation):				
Sanitation	-	60,168	-	60,168
State Street Aid	-	-	11,676	11,676
Recreation	-	-	41,336	41,336
Drug	-	-	1,825	1,825
Unassigned	202,334	-	-	202,334
Total Fund Balances	<u>\$ 1,643,334</u>	<u>\$ 60,168</u>	<u>\$ 54,837</u>	<u>\$ 1,758,339</u>

F. Insurance

The City is exposed to various risks of loss related to such issues: torts; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Commercial insurance is carried for employees bonds and certain property destruction and employee health and accident claims. The City also participated in the Tennessee Municipal League Risk Management Pool, a public entity risk pool, for errors and omissions, automobile liability and physical damage, workers compensation and employees' liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Tennessee Municipal League Risk Management Pool has been self-sustaining through member premiums. Members consist of local jurisdiction municipalities and utility districts in the State. Members are responsible for a pro-rata portion of claims that exceed the Pool's reserves. No additional assessments have been made to the Pool to its members as a result of losses experienced.

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 4 – POLITICAL SUBDIVISION PLAN

General Information about the Pension Plan

Plan Description - Employees of the City are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided – Tennessee Code Annotated Title 8, Chapters 34-37 established the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees Covered by Benefit Terms – At the measurement date of June 30 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	20
Active employees	9
Total	<u>34</u>

Contributions – Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees do not contribute any of their salary. The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2017, the Actuarially Determined Contribution (ADC) for Kenton was \$15,141 based on a rate of 6.38 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Kenton's state shared taxes if required employer contributions are not remitted. The employer's ADC and member contributions are expected

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 4 – POLITICAL SUBDIVISION PLAN (continued)

to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

Kenton's net pension liability (asset) was measured as of June 30, 2016, and the total pension liability (asset) used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial Assumptions – The total pension liability as of June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of Living Adjustment	2.5 percent

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 4 – POLITICAL SUBDIVISION PLAN (continued)

Asset Class	Long-Term Expected	
	Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the City will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (Asset)	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Balance at 6/30/2015	\$ 349,583	\$ 417,422	\$ (67,839)
Changes for the year:			-
Service Cost	19,545	-	19,545
Interest	26,933	-	26,933
Differences between expected and actual experience	56,124	-	56,124
Contributions - Employer	-	15,815	(15,815)
Contributions - Employees	-	22,252	(22,252)
Net investment income	-	11,304	(11,304)
Benefit payments, including refunds of employee contributions	(20,046)	(20,046)	-
Administrative expense	-	(664)	664
Net changes	82,556	28,661	53,895
Balance at 6/30/2016	<u>\$ 432,139</u>	<u>\$ 446,083</u>	<u>\$ (13,944)</u>

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 4 – POLITICAL SUBDIVISION PLAN (continued)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate - The following presents the net pension liability (asset) of the City calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Kentons's Net Pension Liability (Asset)	\$ (33,097)	\$ (13,944)	\$ (53,865)

Negative Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Negative Pension Expense – For the year ended June 30, 2017, the City recognized negative pension expense of \$5,652.

Deferred Outflows of Resources and Deferred Inflows of Resources – For the year ended June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 49,108	\$ (27,277)
Net difference between projected and actual earnings on pension plan investments	14,917	-
Contributions subsequent to the measurement date of June 30, 2016	15,141	-
Total	<u>\$ 79,166</u>	<u>\$ (27,277)</u>

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2016,” will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2018	\$ 1,416
2019	1,416
2020	7,532
2021	5,336
2022	7,016
Thereafter	14,032
	<u>\$ 36,748</u>

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 4 – POLITICAL SUBDIVISION PLAN (continued)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

At June 30, 2017, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2017.

NOTE 5 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The City adopts its budget in accordance with the State's legal requirement which is the level of classification detail at which expenditures may not legally exceed appropriations.

In establishing the budgetary data reflected in the financial statements, the City follows these procedures:

1. Prior to May 1st, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1st. The operating budget includes proposed expenditures and the resources of financing them.
2. The proposed budget is published in the local newspaper with invitations for the public to attend the budget hearings.
3. Prior to July 1st the budget is legally adopted by the Mayor and City Council through adoption of the appropriation ordinance upon two readings.
4. The Mayor is responsible for controlling expenditures of the various agencies of the City government within the appropriated amounts. No expenditures shall be in excess of the appropriations.

Budgeted amounts of revenues and expenditures presented for the General and Special Revenue Funds are shown as originally adopted and after final amendments by the City Council. Budget appropriations lapse at year end.

B. Expenditures Exceeded Appropriations

Expenditures exceeded appropriations approved by the County Commission in the major appropriation categories (the legal level of control) of the following fund:

<u>Fund/Function/Major Appropriation Category</u>	<u>Amount Overspent</u>
General Fund:	
General Government	\$ 7,096
Judicial	274
State Street Aid	1,325
Sanitation	5,691

Expenditures that exceed appropriations are a violation of state statutes.

CITY OF KENTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

C. Concentration of Credit Risk

The City bills local property owners for property taxes and customers of the Proprietary Fund for utility services. At June 30, 2017, these property owners and customers are indebted to the City as noted on the Balance Sheets of the General and Proprietary Funds. The majority of the property owners and customers are local businesses or individuals. The property is subject to foreclosure in the event of non-payment of property taxes after certain legal requirements are met. The utility services are sold to the customers without requiring any collateral, although deposits are required in certain situations.

NOTE 6 – SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 22, 2017, the date which the financial statements were available to be issued.

NOTE 7 – CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally from federal and state awarding governments. Any disallowed claims, including amounts already collected, may constitute a liability of the City of Kenton, Tennessee. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

NOTE 8 – PRIOR PERIOD ADJUSTMENT – CORRECTION OF AN ERROR

A. Fund Financial Statements

Water and Sewer Fund: In a prior year prepaid maintenance expenses were overstated by \$41,667. The restated net position of the water and sewer fund is as follows:

	Net Position As Previously Reported	Prepaid Expense Restatement	Net Position- Beginning, As Restated
Water and Sewer Fund	<u>\$ 2,208,915</u>	<u>\$ (41,667)</u>	<u>\$ 2,167,248</u>

B. Government Wide Financial Statements

Business-Type Activities: In a prior year prepaid maintenance expenses were overstated by \$41,667. The restated beginning net position of the business-type activities is as follows:

	Net Position As Previously Reported	Prepaid Expense Restatement	Net Position- Beginning, As Restated
Business-Type Activities	<u>\$ 2,208,915</u>	<u>\$ (41,667)</u>	<u>\$ 2,167,248</u>

**Schedule of Changes in Kenton's Net Pension Liability (Asset) and Related Ratios
Based on Participation in the
Public Employee Pension Plan of TCRS
Last Fiscal Year ending June 30**

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total pension liability			
Service cost	\$ 10,301	\$ 16,038	\$ 19,545
Interest	26,740	27,513	26,933
Changes in benefit terms	-	-	-
Differences between actual and expected experience	(8,074)	(34,863)	56,124
Change of assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(28,965)	(19,818)	(20,046)
Net change in total pension liability	2	(11,130)	82,556
Total pension liability - beginning	360,711	360,713	349,583
Total pension liability - ending (a)	<u>\$ 360,713</u>	<u>\$ 349,583</u>	<u>\$ 432,139</u>
Plan fiduciary net position			
Contributions - employer	\$ 12,713	\$ 15,903	\$ 15,815
Contributions - employee	11,094	13,220	22,252
Net investment income	56,284	12,341	11,304
Benefit payments, including refunds of employee contributions	(28,965)	(19,818)	(20,046)
Administrative expense	(311)	(498)	(664)
Net change in plan fiduciary net position	50,815	21,148	28,661
Plan fiduciary net position - beginning	345,459	396,274	417,422
Plan fiduciary net position - ending (b)	<u>\$ 396,274</u>	<u>\$ 417,422</u>	<u>\$ 446,083</u>
Net Pension Liability (asset) - ending (a) - (b)	<u>\$ (35,561)</u>	<u>\$ (67,839)</u>	<u>\$ (13,944)</u>
Plan fiduciary net position as a percentage of total pension liability	109.86%	119.41%	103.23%
Covered-employee payroll	221,871	265,495	264,020
Net pension liability (asset) as a percentage of covered-employee payroll	-16.03%	-25.55%	-5.28%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

See Independent Auditor's Report.

Schedule of Kenton's Contributions
Based on Participation in the Public Employee Pension Plan of TCRS
Last Fiscal Year ending June 30

	2014	2015	2016	2017
Actuarially determined contribution	12,713	15,903	15,815	15,141
Contributions in relation to the actuarially determined contribution	12,713	15,903	15,815	15,141
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	221,871	265,495	264,020	237,346
Contributions as a percentage of covered	5.73%	5.99%	5.99%	6.38%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Notes to Schedule

Valuation date: Actuarially determined contribution rates for 2017 were calculated based on the June 30, 2015 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Varies by year
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation
Investment Rate of Return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of Living Adjustments	2.5 percent.

See Independent Auditor's Report.

CITY OF KENTON, TENNESSEE
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2017

	<u>State Street Aid</u>	<u>Parks and Recreation</u>	<u>Drug</u>	<u>Combined Total</u>
ASSETS				
Cash and cash equivalents	\$ 8,118	\$ 38,604	\$ 1,825	\$ 48,547
Accounts receivable	<u>6,164</u>	<u>3,510</u>	<u>-</u>	<u>9,674</u>
Total Assets	<u>\$ 14,282</u>	<u>\$ 42,114</u>	<u>\$ 1,825</u>	<u>\$ 58,221</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 2,606	\$ 778	\$ -	\$ 3,384
Total liabilities	<u>2,606</u>	<u>778</u>	<u>-</u>	<u>3,384</u>
Fund Balance				
Restricted	11,676	41,336	1,825	54,837
Total fund balance	<u>11,676</u>	<u>41,336</u>	<u>1,825</u>	<u>54,837</u>
Total Liabilities and Fund Balance	<u>\$ 14,282</u>	<u>\$ 42,114</u>	<u>\$ 1,825</u>	<u>\$ 58,221</u>

See Independent Auditor's Report.

CITY OF KENTON, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	State Street Aid	Parks and Recreation	Drug	Combined Totals
Revenues				
Intergovernmental revenues	\$ 35,460	\$ 20,441	\$ -	\$ 55,901
Charges for service	-	4,500	-	4,500
Fines and seizures	-	-	578	578
Miscellaneous revenues	11	-	-	11
Total revenues	<u>35,471</u>	<u>24,941</u>	<u>578</u>	<u>60,990</u>
Expenditures				
Current				
Highways and streets	35,158	-	-	35,158
Recreation expenses	-	15,153	-	15,153
Total expenditures	<u>35,158</u>	<u>15,153</u>	<u>-</u>	<u>50,311</u>
Revenues Over (Under) Expenditures	313	9,788	578	10,679
Fund Balance - July 1, 2016	<u>11,363</u>	<u>31,548</u>	<u>1,247</u>	<u>44,158</u>
Fund Balance - June 30, 2017	<u>\$ 11,676</u>	<u>\$ 41,336</u>	<u>\$ 1,825</u>	<u>\$ 54,837</u>

See Independent Auditor's Report.

CITY OF KENTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - STATE STREET AID FUND
For the Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Variance</u>
Revenues				
Gasoline and motor fuel tax	\$ 35,000	\$ 35,000	\$ 24,324	\$ (10,676)
Gas 3 cent tax	-	-	7,237	7,237
Gas 1989 tax	-	-	3,899	3,899
Interest	10	10	11	1
Total revenues	<u>35,010</u>	<u>35,010</u>	<u>35,471</u>	<u>461</u>
Expenditures				
Street lighting	31,950	33,833	34,720	887
Repairs and maintenance	<u>3,060</u>	<u>-</u>	<u>438</u>	<u>438</u>
Total expenditures	<u>35,010</u>	<u>33,833</u>	<u>35,158</u>	<u>1,325</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 1,177</u>	<u>313</u>	<u>\$ (864)</u>
Fund Balance - July 1, 2016			<u>11,363</u>	
Fund Balance - June 30, 2017			<u>\$ 11,676</u>	

See Independent Auditor's Report.

CITY OF KENTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - PARKS AND RECREATION FUND
For the Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Variance</u>
Revenues				
Local sales tax	\$ 19,530	\$ 18,700	\$ 20,441	\$ 1,741
Parks and recreation charges	4,700	4,600	4,500	(100)
Total revenues	<u>24,230</u>	<u>23,300</u>	<u>24,941</u>	<u>1,641</u>
Expenditures				
Supplies	2,740	1,987	800	(1,187)
Repair and maintenance	5,000	2,900	2,148	(752)
Utility services	5,980	5,993	6,359	366
Capital outlay	10,510	5,846	5,846	-
Total expenditures	<u>24,230</u>	<u>16,726</u>	<u>15,153</u>	<u>(1,573)</u>
Revenues Over (Under) Expenditures	-	6,574	9,788	3,214
Other Financing Sources (Uses)				
Grant revenue	-	500	-	(500)
Total other financing sources (Uses)	<u>-</u>	<u>500</u>	<u>-</u>	<u>(500)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ 7,074</u>	9,788	<u>\$ 2,714</u>
Fund Balance - July 1, 2016			<u>31,548</u>	
Fund Balance - June 30, 2017			<u>\$ 41,336</u>	

See Independent Auditor's Report.

CITY OF KENTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - DRUG FUND
For the Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Variance</u>
Revenues				
Court fines and costs	\$ 50	\$ 553	\$ 578	\$ 25
Total revenues	<u>50</u>	<u>553</u>	<u>578</u>	<u>25</u>
Expenditures				
Drug operations	600	-	-	-
Miscellaneous	<u>697</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>1,297</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues Over (Under) Expenditures	<u>\$ (1,247)</u>	<u>\$ 553</u>	578	<u>\$ 25</u>
Fund Balance - July 1, 2016			<u>1,247</u>	
Fund Balance - June 30, 2017			<u>\$ 1,825</u>	

See Independent Auditor's Report.

CITY OF KENTON, TENNESSEE
SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE
For the Year Ended June 30, 2017

<u>Year of Levy</u>	<u>Balance 6/30/2016</u>	<u>Current Assessments and Adjustments</u>	<u>Collections</u>	<u>Balance 6/30/2017</u>
2016	\$ -	\$ 189,534	\$ 170,949	\$ 18,585
2015	16,281	-	9,231	7,050
2014	8,139	-	4,816	3,323
2013	4,260	-	2,947	1,313
2012	2,359	-	438	1,921
2011	5,535	-	33	5,502
2010	8,775	-	-	8,775
2009	9,375	-	-	9,375
2008	31,279	-	-	31,279
	<u>\$ 86,003</u>	<u>\$ 189,534</u>	<u>\$ 188,414</u>	<u>\$ 87,123</u>
Allowance for uncollectible revenues				(72,255)
2017 levy considered as deferred revenue				185,188
Net taxes receivable				<u>\$ 200,056</u>
Balance as of 6/30/17				\$ 87,123
Considered current receivables (collected within 60 days of year end)				(5,052)
2017 levy considered as deferred revenue				185,188
Allowance for uncollectible revenues				(72,255)
Unavailable property tax				<u>\$ 195,004</u>

See Independent Auditor's Report.

CITY OF KENTON, TENNESSEE
SCHEDULE OF BOND AND INTEREST REQUIREMENTS
WATER AND SEWER 5% REVENUE AND TAX BOND, SERIES 1983
For the Year Ended June 30, 2017

Due For Year Ending June 30	Principal Balance	Principal Payment	Interest Payment	Total Payment
2018	\$ 164,380	\$ 27,925	\$ 7,499	\$ 35,424
2019	136,455	29,351	6,073	35,424
2020	107,104	30,854	4,570	35,424
2021	76,250	32,431	2,993	35,424
2022	43,819	34,090	1,334	35,424
2023	9,729	9,729	65	9,794
		<u>\$ 164,380</u>	<u>\$ 22,534</u>	<u>\$ 186,914</u>

See Independent Auditor's Report.

CITY OF KENTON, TENNESSEE
SCHEDULE OF BOND AND INTEREST REQUIREMENTS
WATER AND SEWER 4.75% REVENUE AND TAX BOND, SERIES 1999
For the Year Ended June 30, 2017

Due For Year Ending June 30	Principal Balance	Principal Payment	Interest Payment	Total Payment
2018	\$ 254,619	\$ 7,274	\$ 11,938	\$ 19,212
2019	247,345	7,628	11,584	19,212
2020	239,717	7,999	11,213	19,212
2021	231,718	8,386	10,826	19,212
2022	223,332	8,794	10,418	19,212
2023	214,538	9,221	9,991	19,212
2024	205,317	9,668	9,544	19,212
2025	195,649	10,138	9,074	19,212
2026	185,511	10,630	8,582	19,212
2027	174,881	11,146	8,066	19,212
2028	163,735	11,687	7,525	19,212
2029	152,048	12,255	6,957	19,212
2030	139,793	12,849	6,363	19,212
2031	126,944	13,473	5,739	19,212
2032	113,471	14,127	5,085	19,212
2033	99,344	14,814	4,398	19,212
2034	84,530	15,532	3,680	19,212
2035	68,998	16,287	2,925	19,212
2036	52,711	17,077	2,135	19,212
2037	35,634	17,907	1,305	19,212
2038	17,727	17,727	443	18,170
		<u>\$ 254,619</u>	<u>\$ 147,791</u>	<u>\$ 402,410</u>

See Independent Auditor's Report.

CITY OF KENTON, TENNESSEE
SCHEDULE OF BOND AND INTEREST REQUIREMENTS
GENERAL OBLIGATION SCHOOL REFUNDING BONDS, SERIES 2011
For the Year Ended June 30, 2017

<u>Due For Year Ending June 30</u>	<u>Principal Balance</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>
2018	\$ 1,285,000	\$ 60,000	\$ 44,802	\$ 104,802
2019	1,225,000	70,000	43,211	113,211
2020	1,155,000	115,000	41,356	156,356
2021	1,040,000	120,000	37,907	157,907
2022	920,000	130,000	34,306	164,306
2023	790,000	140,000	29,756	169,756
2024	650,000	145,000	24,856	169,856
2025	505,000	160,000	19,600	179,600
2026	345,000	170,000	13,800	183,800
2027	175,000	175,000	7,000	182,000
		<u>\$ 1,285,000</u>	<u>\$ 296,594</u>	<u>\$ 1,581,594</u>

See Independent Auditor's Report.

CITY OF KENTON, TENNESSEE
SCHEDULE OF NOTE AND INTEREST REQUIREMENTS
NOTE PAYABLE - SIMMONS BANK
For the Year Ended June 30, 2017

Due For Year Ending June 30	Principal Balance	Principal Payment	Interest Payment	Total Payment
2018	\$ 156,000	\$ 26,000	\$ 5,460	\$ 31,460
2019	130,000	26,000	4,550	30,550
2020	104,000	26,000	3,640	29,640
2021	78,000	26,000	2,730	28,730
2022	52,000	26,000	1,820	27,820
2023	26,000	26,000	910	26,910
		\$ 156,000	\$ 19,110	\$ 175,110

See Independent Auditor's Report.

CITY OF KENTON, TENNESSEE
SCHEDULE OF NOTE AND INTEREST REQUIREMENTS
NOTE PAYABLE - SIMMONS BANK
For the Year Ended June 30, 2017

<u>Due For Year Ending June 30</u>	<u>Principal Balance</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>
2018	\$ 14,066	\$ 14,066	\$ 331	\$ 14,397
		<u>\$ 14,066</u>	<u>\$ 331</u>	<u>\$ 14,397</u>

See Independent Auditor's Report.

CITY OF KENTON, TENNESSEE
SCHEDULE OF CAPITAL LEASE REQUIREMENTS
LEASE PAYABLE-DE LAGE LANDON PUBLIC FINANCE
For the Year Ended June 30, 2017

<u>Due For Year Ending June 30</u>	<u>Principal Balance</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>
2018	\$ 20,106	\$ 7,262	\$ 750	\$ 8,012
2019	12,842	7,590	420	8,010
2020	5,252	5,254	88	5,340
		<u>\$ 20,106</u>	<u>\$ 1,258</u>	<u>\$ 21,362</u>

See Independent Auditor's Report.

CITY OF KENTON, TENNESSEE
SCHEDULE OF PROPERTY TAX RATES AND ASSESSMENTS
For the Year Ended June 30, 2017

<u>Year</u>	<u>Assessed Value</u>	<u>Tax Rate Per \$100</u>	<u>Levy</u>	
2007	9,898,005	1.130	111,847	Obion Co.
2007	5,348,481	1.230	65,786	Gibson Co.
2008	9,738,183	1.130	110,041	Obion Co.
2008	5,323,444	1.230	65,478	Gibson Co.
2009	7,712,763	1.130	87,154	Obion Co.
2009	6,173,092	1.150	70,991	Gibson Co.
2010	7,708,555	1.130	87,107	Obion Co.
2010	6,300,815	1.150	72,459	Gibson Co.
2011	7,232,944	1.380	99,815	Obion Co.
2011	5,750,325	1.400	80,505	Gibson Co.
2012	7,160,918	1.380	98,821	Obion Co.
2012	5,720,620	1.400	80,089	Gibson Co.
2013	6,912,305	1.450	98,821	Obion Co.
2013	5,673,102	1.400	80,089	Gibson Co.
2014	7,005,534	1.470	102,981	Obion Co.
2014	5,957,283	1.480	88,233	Gibson Co.
2015	6,637,082	1.470	100,902	Obion Co.
2015	5,984,143	1.480	88,630	Gibson Co.
2016	6,895,325	1.470	101,362	Obion Co.
2016	5,659,724	1.480	83,826	Gibson Co.

See Independent Auditor's Report.

CITY OF KENTON, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

Grant Description	Federal CFDA #	Grant Number	(Receivable) Unearned 6/30/2016	Federal Receipts	Expenditures	(Receivable) Unearned 6/30/2017
Federal Awards						
Department of Transportation-General Government						
Passed through Tennessee Department of Transportation						
High Visibility Enforcement	21.607	Z16GHS177	\$ -	\$ 4,469	\$ 4,469	\$ -
Total Department of Transportation-General Government passed through Tennessee Department of Transportation			-	4,469	4,469	-
Department of Housing and Urban Development						
Passed through Tennessee Department of Economic and Community Development						
Community Development Block Grant-Sewer System Improvements	14.269	47298	-	31,576	31,576	-
Community Development Block Grant-Sewer System Improvements	14.228	9076	(144,566)	236,761	92,195	-
Total Department of Housing and Urban Development passed through Tennessee Department of Economic and Community Development			(144,566)	268,337	123,771	-
Total Federal Awards			\$ (144,566)	\$ 272,806	\$ 128,240	\$ -

Memo: "Accrued" is due from Grantor

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards summarizes the expenditures of the City of Kenton under programs of the federal and state governments for the year under programs of the federal and state governments for the year ended June 30, 2017. The schedule is presented using the modified accrual basis of accounting.

See Independent Auditor's Report.

CITY OF KENTON, TENNESSEE

AWWA SCHEDULE - UNAUDITED

June 30, 2017

AWWA Free Water Audit Software: Reporting Worksheet																																									
Water Audit Report for:		City of Kenton (0000347)																																							
Reporting Year:		2016		7/2016 - 6/2017																																					
All volumes to be entered as: MILLION GALLONS (US) PER YEAR																																									
<div style="display: flex; justify-content: space-between;"> <div> <p>WATER SUPPLIED</p> <table style="width: 100%;"> <tr> <td>Volume from own sources:</td> <td>7</td> <td>31.934</td> <td>MG/Yr</td> </tr> <tr> <td>Water imported:</td> <td>n/a</td> <td>0.000</td> <td>MG/Yr</td> </tr> <tr> <td>Water exported:</td> <td>n/a</td> <td>0.000</td> <td>MG/Yr</td> </tr> </table> </div> <div> <p>Master Meter and Supply Error Adjustments</p> <table style="width: 100%;"> <tr> <td>Pcnt:</td> <td>Value:</td> <td></td> <td></td> <td></td> </tr> <tr> <td>3</td> <td>-15.00%</td> <td></td> <td></td> <td>MG/Yr</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>MG/Yr</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>MG/Yr</td> </tr> </table> <p>Enter negative % or value for under-registration Enter positive % or value for over-registration</p> </div> </div>										Volume from own sources:	7	31.934	MG/Yr	Water imported:	n/a	0.000	MG/Yr	Water exported:	n/a	0.000	MG/Yr	Pcnt:	Value:				3	-15.00%			MG/Yr					MG/Yr					MG/Yr
Volume from own sources:	7	31.934	MG/Yr																																						
Water imported:	n/a	0.000	MG/Yr																																						
Water exported:	n/a	0.000	MG/Yr																																						
Pcnt:	Value:																																								
3	-15.00%			MG/Yr																																					
				MG/Yr																																					
				MG/Yr																																					
WATER SUPPLIED:				37.569 MG/Yr																																					
<p>AUTHORIZED CONSUMPTION</p> <table style="width: 100%;"> <tr> <td>Billed metered:</td> <td>7</td> <td>25.979</td> <td>MG/Yr</td> </tr> <tr> <td>Billed unmetered:</td> <td>n/a</td> <td>0.000</td> <td>MG/Yr</td> </tr> <tr> <td>Unbilled metered:</td> <td>10</td> <td>1.261</td> <td>MG/Yr</td> </tr> <tr> <td>Unbilled unmetered:</td> <td>5</td> <td>0.470</td> <td>MG/Yr</td> </tr> </table> <p>Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed</p> <p>AUTHORIZED CONSUMPTION:</p> <p>27.710 MG/Yr</p>										Billed metered:	7	25.979	MG/Yr	Billed unmetered:	n/a	0.000	MG/Yr	Unbilled metered:	10	1.261	MG/Yr	Unbilled unmetered:	5	0.470	MG/Yr																
Billed metered:	7	25.979	MG/Yr																																						
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Unbilled metered:	10	1.261	MG/Yr																																						
Unbilled unmetered:	5	0.470	MG/Yr																																						
WATER LOSSES (Water Supplied - Authorized Consumption)				9.859 MG/Yr																																					
<p>Apparent Losses</p> <table style="width: 100%;"> <tr> <td>Unauthorized consumption:</td> <td></td> <td>0.094</td> <td>MG/Yr</td> </tr> </table> <p>Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed</p> <table style="width: 100%;"> <tr> <td>Customer metering inaccuracies:</td> <td>7</td> <td>0.842</td> <td>MG/Yr</td> </tr> <tr> <td>Systematic data handling errors:</td> <td>7</td> <td>0.065</td> <td>MG/Yr</td> </tr> </table> <p>Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed</p> <p>Apparent Losses:</p> <p>1.001 MG/Yr</p>										Unauthorized consumption:		0.094	MG/Yr	Customer metering inaccuracies:	7	0.842	MG/Yr	Systematic data handling errors:	7	0.065	MG/Yr																				
Unauthorized consumption:		0.094	MG/Yr																																						
Customer metering inaccuracies:	7	0.842	MG/Yr																																						
Systematic data handling errors:	7	0.065	MG/Yr																																						
<p>Real Losses (Current Annual Real Losses or CARL)</p> <p>Real Losses = Water Losses - Apparent Losses:</p> <p>8.858 MG/Yr</p>																																									
WATER LOSSES:				9.859 MG/Yr																																					
<p>NON-REVENUE WATER</p> <p>NON-REVENUE WATER:</p> <p>11.590 MG/Yr</p> <p>= Water Losses + Unbilled Metered + Unbilled Unmetered</p>																																									
<p>SYSTEM DATA</p> <table style="width: 100%;"> <tr> <td>Length of mains:</td> <td>4</td> <td>15.4</td> <td>miles</td> </tr> <tr> <td>Number of <u>active AND inactive</u> service connections:</td> <td>7</td> <td>717</td> <td></td> </tr> <tr> <td>Service connection density:</td> <td></td> <td>47</td> <td>conn./mile main</td> </tr> </table> <p>Are customer meters typically located at the curbstop or property line? Yes</p> <p>Average length of customer service line: Average length of customer service line has been set to zero and a data grading score of 10 has been applied</p> <p>Average operating pressure: 3 48.0 psi</p>										Length of mains:	4	15.4	miles	Number of <u>active AND inactive</u> service connections:	7	717		Service connection density:		47	conn./mile main																				
Length of mains:	4	15.4	miles																																						
Number of <u>active AND inactive</u> service connections:	7	717																																							
Service connection density:		47	conn./mile main																																						
<p>COST DATA</p> <table style="width: 100%;"> <tr> <td>Total annual cost of operating water system:</td> <td>10</td> <td>\$66,322</td> <td>\$/Year</td> </tr> <tr> <td>Customer retail unit cost (applied to Apparent Losses):</td> <td>9</td> <td>\$3.44</td> <td>\$/1000 gallons (US)</td> </tr> <tr> <td>Variable production cost (applied to Real Losses):</td> <td>10</td> <td>\$496.36</td> <td>\$/Million gallons</td> </tr> </table>										Total annual cost of operating water system:	10	\$66,322	\$/Year	Customer retail unit cost (applied to Apparent Losses):	9	\$3.44	\$/1000 gallons (US)	Variable production cost (applied to Real Losses):	10	\$496.36	\$/Million gallons																				
Total annual cost of operating water system:	10	\$66,322	\$/Year																																						
Customer retail unit cost (applied to Apparent Losses):	9	\$3.44	\$/1000 gallons (US)																																						
Variable production cost (applied to Real Losses):	10	\$496.36	\$/Million gallons																																						
<p>WATER AUDIT DATA VALIDITY SCORE:</p> <div style="border: 2px solid red; padding: 5px; text-align: center; color: red;"> <p>*** YOUR SCORE IS: 74 out of 100 ***</p> </div> <p>A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score</p> <p>PRIORITY AREAS FOR ATTENTION:</p> <p>Based on the information provided, audit accuracy can be improved by addressing the following components:</p> <div style="border: 1px solid red; padding: 2px;">1: Volume from own sources</div> <div style="border: 1px solid red; padding: 2px;">2: Master meter error adjustment</div> <div style="border: 1px solid red; padding: 2px;">3: Billed metered</div>																																									

See Independent Auditor's Report.

CITY OF KENTON, TENNESSEE
AWWA SCHEDULE - UNAUDITED
June 30, 2017

AWWA Free Water Audit Software: System Attributes and Performance Indicators			
Water Audit Report for: City of Kenton (0000347)			
Reporting Year: 2016 7/2016 - 6/2017			
*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 74 out of 100 ***			
<u>System Attributes:</u>			
		Apparent Losses:	1.001 MG/Yr
		+ Real Losses:	8.858 MG/Yr
		= Water Losses:	9.860 MG/Yr
		Unavoidable Annual Real Losses (UARL):	See limits in definition MG/Yr
		Annual cost of Apparent Losses:	\$3,445
		Annual cost of Real Losses:	\$4,397
		Valued at Variable Production Cost <small>Return to Reporting Worksheet to change this assumption</small>	
<u>Performance Indicators:</u>			
Financial:	{	Non-revenue water as percent by volume of Water Supplied:	30.9%
Financial:	{	Non-revenue water as percent by cost of operating system:	13.1%
Real Losses valued at Variable Production Cost			
Operational Efficiency:	{	Apparent Losses per service connection per day:	3.83 gallons/connection/day
Operational Efficiency:	{	Real Losses per service connection per day:	33.85 gallons/connection/day
	{	Real Losses per length of main per day*:	N/A
	{	Real Losses per service connection per day per psi pressure:	0.71 gallons/connection/day/psi
		From Above, Real Losses = Current Annual Real Losses (CARL):	8.86 million gallons/year
		Infrastructure Leakage Index (ILI) [CARL/UARL]:	
<small>* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline</small>			

See Independent Auditor's Report.



Members: American Institute of Certified Public Accountants | Tennessee Society of Certified Public Accountants
Governmental Audit Quality Center | Private Companies Practice Section
www.crsdpa.com

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

Honorable Mayor and
Board of Aldermen
City of Kenton, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kenton, Tennessee (the City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 22, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2017-001, 2017-002, and 2017-003 that we consider to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kenton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2017-002 and 2017-003.

City of Kenton's Response to Findings

The City of Kenton's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City of Kenton's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Cowart Reese Sargent CPAs, PC
Dyersburg, Tennessee
December 22, 2017

CITY OF KENTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2017

Financial Statement Findings

Current Year Findings

2017-001 – Inadequate Segregation of Duties (Significant Deficiency)

Condition: The City has inadequate segregation of duties.

Cause: The City employs only two people to maintain the accounting records, which cause implementation of an extensive system of internal control to be impractical.

Criteria: In order to protect the assets of the City and detect errors, bookkeeping duties should be segregated whenever possible.

Effect: Failure to adequately segregate duties increases the risk of misappropriation of assets and the occurrence of errors without detection.

Recommendation: We recommend that the City segregate as many duties as possible when it is feasible to do so. The Board of Aldermen approves all monthly expenditures. In addition to this, we recommend that the Board take an active role in reviewing bank reconciliations, daily cash reports and deposits, and other documentation to oversee the accounting functions. Doing so will reduce the risk of material misstatement resulting from the lack of segregation of duties.

Response: Management understands that a lack of segregation of duties exists; however, the cost of additional personnel required to perform functions necessary for a complete internal control system would exceed the benefits derived.

2017-002 – Budget (Significant Deficiency and Non-compliance)

Condition: The City expended more than budgeted appropriations by major appropriation category in the General Fund, Sanitation Fund, and State Street Aid Fund.

Cause: The budget was not amended to cover the necessary expenditures incurred during the fiscal year.

Criteria: TCA 6-56-203 prohibits a municipality from expending any moneys except in accordance with a budget ordinance.

Effect: Spending in excess of budgeted appropriations is a violation of state law.

Recommendation: To avoid possible legal conflict, the City should authorize all expenditures either in the original budget, in an amendment, or in a supplemental appropriation.

Response: Management agrees to take the appropriate action to ensure that expenditures are properly authorized as noted above.

CITY OF KENTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2017

2017-003 – Collections Deposit Lag (Significant Deficiency and Non-compliance)

Condition: The City had several days of collections not deposited timely.

Cause: City personnel did not deposit collections within the three business days required by state law.

Criteria: *The Internal Control and Compliance Manual for Tennessee Municipalities*, issued by the Tennessee Comptroller of the Treasury (title 5; chapter 11; section 1), states “municipal officials should ensure that collections are deposited daily, if possible, but not more than three business days after the initial collection, as required by state law.”

Effect: Deposits not made timely is a violation of state law. In addition, it is easier for funds to be misappropriated or stolen when they are not deposited into the City’s bank account.

Recommendation: The City should ensure collections are deposited no later than three business days after receipt.

Response: Management agrees to take the appropriate action to ensure deposits are made timely in the future.

CITY OF KENTON, TENNESSEE
SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended June 30, 2017

Financial Statement Findings

Finding Number	Finding Title	Status/Finding Number
2016-001	Inadequate Segregation of Duties (original finding #2011-002)	Repeated/2017-001
2016-002	Budget-Noncompliance (original finding #2011-003)	Repeated/2017-002